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Research Update:

**Yestar Healthcare Holdings Co. Ltd.
'BB-' Rating Affirmed On Strong
EBITDA Growth, Ongoing
Deleveraging; Outlook Stable**

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Overview

- We expect Yestar's EBITDA growth to remain strong in the coming 12-24 months and support its cash flow generation and ongoing deleveraging.
- In our view, Yestar has the flexibility to decide the payment terms on a lump sum cash payment to buy out a remaining minority stake in Shanghai Emphasis. We see the likelihood of such a payout in full as low over the next 12 months.
- We are affirming our 'BB-' issuer credit rating on Yestar.
- The stable outlook reflects our expectation that Yestar will maintain its good growth and profitability over the next 12 months, while keeping its debt-to-EBITDA ratio below 4.0x.

Rating Action

On Aug. 28, 2018, S&P Global Ratings affirmed its 'BB-' long-term issuer credit rating on Yestar Healthcare Holdings Co. Ltd., a distributor of in-vitro-diagnostic (IVD) products and photographic films. The outlook is stable.

Rationale

We affirmed the rating because we expect Yestar to maintain its credit metrics over the next 12-24 months and continue to deleverage while expanding its earnings through both organic and inorganic growth, particularly in the IVD distribution business.

Yestar has a contingent obligation to pay Chinese renminbi (RMB) 675 million in the second half of 2018 for a remaining 30% stake in Shanghai Emphasis Group Companies. We believe the terms of the contract provide Yestar significant flexibility to satisfy its contractual obligations. Essentially, Yestar and the minority stake owner of Shanghai Emphasis will need to agree on the forms of consideration and timing of payments. We expect Yestar to exercise this flexibility to make sure it has sufficient liquidity to meet its

ongoing obligations and maturities while ensuring a certain level of cushion. Furthermore, Mr. Li Bin, the minority shareholder of Shanghai Emphasis, has an aligned interest with Yestar as the second-largest shareholder in the firm (7.6%) outside of the controlling Hartono family. It is therefore likely, in our view, that both parties come to mutually agreeable terms.

We see a low probability of Yestar settling the RMB675 million in cash in full in the coming year. Even if the company were to pay the amount in full with debt, it would not affect our liquidity assessment or its deleveraging trend. We expect the company's strong operating cash flow to support its liquidity and help maintain its debt-to-EBITDA ratio at below 4.0x.

In addition, Yestar does not have any other contractual acquisition payments for the coming 12 months. Management indicated that it does not plan to pursue new acquisitions but instead focus on integration over the near term. Yestar's debt capital structure is weighted toward long-term debt and does not have large near-term maturities.

Liquidity

We assess Yestar's liquidity as adequate because the company's sources of liquidity are likely to cover its uses by more than 1.2x over the next 12 months. We also expect the company's liquidity to exceed uses even if EBITDA declines by 15%. In addition, we believe Yestar has generally satisfactory standing in credit markets with prudent risk management.

Principal liquidity sources:

- Cash and cash equivalents of RMB370 million as of June 30, 2018.
- Cash funds from operations of about RMB600 million-RMB700 million over the 12 months ending June 30, 2019.

Principal liquidity uses:

- Short-term debt maturities of RMB280 million as of June 30, 2018.
- Working capital outflows of about RMB200 million-RMB300 million over the 12 months ending June 30, 2019.
- Capital expenditures of about RMB30 million each year.
- Dividend payments of about RMB120 million.

Outlook

The stable outlook on Yestar reflects our expectation that the company will maintain its good growth and profitability over the next 12 months. We expect the company to maintain its debt-to-EBITDA ratio at 4.0x or below including the impact of additional acquisitions over the next 12 months. We also expect the company to maintain good financial discipline and carefully manage its

acquisitions and funding sources.

Downside scenario

We may lower the rating if Yestar: (1) reduces its liquidity buffer by paying minority shareholders with cash on its balance sheet; (2) pursues debt-funded acquisitions in a more aggressive manner than we expect; or (3) has lower profitability or growth than we estimate, such that its debt-to-EBITDA ratio stays above 4.0x over the next 12 months without signs of significant improvement.

Upside scenario

Rating upside is limited in the next 12 months. We could raise the rating if Yestar demonstrates a longer track record of prudent financial management and improves its leverage profile, such that its debt-to-EBITDA ratio decreases to below 3.0x on a sustained basis.

Ratings Score Snapshot

Issuer Credit Rating: BB-/Stable/--

Business risk: Weak

- Country risk: Moderately high
- Industry risk: Intermediate
- Competitive position: Weak

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Business And Consumer Services Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

Yestar Healthcare Holdings Co. Ltd.

Issuer Credit Rating

BB-/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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